

# IN THEIR OWN WORDS: THE EXPERTS ON THE REPUBLICAN PROPOSAL TO PRIVATIZE SOCIAL SECURITY

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## Republican Proposal Will Cut Benefits

### **Peter Wehner, President Bush's director of strategic initiatives:**

"Second, we're going to take a very close look at changing the way benefits are calculated. As you probably know, under current law benefits are calculated by a 'wage index' -- but because wages grow faster than inflation, so do Social Security benefits. If we don't address this aspect of the current system, we'll face serious economic risks." [White House Memo, 1/5/05]

"You may know that there is a small number of conservatives who prefer to push only for investment accounts and make no effort to adjust benefits -- therefore making no effort to address this fundamental structural problem. In my judgment, that's a bad idea. We simply cannot solve the Social Security problem with Personal Retirement Accounts alone." [White House Memo, 1/5/05]

### **The Congressional Budget Office:**

The major Social Security recommendation of the President's commission "would reduce expected retirement benefits relative to scheduled benefits, even when the benefits paid from IAs [individual accounts] ... are included. For example, benefits for the 1980s birth cohort would be 30 percent lower, and benefits for the 2000s cohort would be 45 percent lower." ["Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/04, page 15 and Table 2]

### **Jeff Madrick, editor of Challenge Magazine:**

"So Americans who think privatization will necessarily preserve their retirement incomes should think again. Most privatization plans involve a decided cut in average benefits." [New York Times, 12/23/05]

### **Alan Sloan, Newsweek's Wall Street editor:**

"My problem with Bush's proposal ... is that he's using fuzzy math to promise a free lunch. He rhapsodizes about private accounts -- but doesn't mention that the trade-off is a cut of 40 or 50 percent in Social Security's guaranteed benefit. ... Bush would put a big hole in the Social Security safety net at the very time that corporations are doing the same with pensions." [Washington Post, 12/21/04]

## Republican Proposal will Weaken Social Security

### **White House Official:**

"If you just did the personal accounts ... you would accelerate the insolvency date" for Social Security, said one White House official who asked not to be identified. [Los Angeles Times, 1/11/05]

### **David Walker, Comptroller General of the Government Accountability Office:**

"The creation of private accounts for Social Security will not deal with the solvency and sustainability of the Social Security fund." [New York Times, 12/14/04]

### **Douglas Holtz-Eakin, Director of the Congressional Budget Office:**

Social Security "Privatization does not finance that [the Social Security] gap." [Wall Street Journal, 1/14/05]

**Economists Peter Diamond and Peter Orszag:**

"The individual accounts themselves do not help in restoring Social Security solvency. Instead, as the Commission's Report itself acknowledges, the individual accounts themselves would worsen Social Security's balance over the next 75 years. Moreover, the individual accounts would have an adverse effect on Social Security's financial condition on a permanent basis." [Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the President's Commission to Strengthen Social Security, 6/02]

**Ken Apfel, former Commissioner of the Social Security Administration:**

Private accounts would "...ultimately destabilize the financing of Social Security... It only makes it worse; it doesn't make the problem better," [San Francisco Chronicle, 12/15/04]

**Economist Henry Aaron, senior fellow at the Brookings Institution:**

"By diverting taxes, you are destabilizing the financing base that puts that program at risk." [Newsday, 12/16/04]

**Republican Privatization Plans Will Increase the Deficit and Harm Our Economy****Economic Report of the President 2004:**

"[P]ersonal retirement accounts widen the deficit by design."

**Congressional Budget Office:**

"The resulting outlays [of Social Security privatization] would increase budget deficits or decrease budget surpluses." ["Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/2004, pp. 11 and Figure 2A]

**Former Treasury Secretary Robert Rubin:**

"It's a badly, badly flawed plan. From a fiscal point of view it's horrendous. It adds to deficits and federal debt in very large numbers until 2060... [creating an] adverse effect on interest rates, an adverse effect on consumption and housing prices, reduce productivity and growth, and crowd out debt capital to the private sector. Markets could begin to lose confidence in fiscal policy. The soundness of social security will be worse." [The Guardian (London), 1/20/05]

**Concord Coalition Members Warren B. Rudman, Bob Kerrey, Peter G. Peterson, Sam Nunn, Paul Volcker, Robert Rubin, Charles A. Bowsher, and Donald B. Marron:**

"One reform idea that has received much attention lately is establishing personally owned accounts and 'funding' them with borrowed money. ... It would not add to national savings....It would worsen the already precarious fiscal outlook. It would send a dangerous signal to the markets that we are not taking our fiscal problems seriously. If we 'pay for' Social Security reform by running up the debt further...[t]his would increase the risks of a so-called 'hard landing' such as a spike in interest rates, rising inflation and a plunging dollar. [Open Letter, 1/9/05]

**Economist Peter Diamond:**

"If you pile on another \$1 trillion to \$2 trillion to the national debt we've already got, it could trigger an economic crisis." [Business Week, 1/24/05]

## **The Stock Market is Risky Business**

### **Former Treasury Secretary Robert Rubin:**

"You are not making social security more secure by subjecting people's retirement to equity risk. If you look at the Nikkei in Japan you get a sense of what can happen." [The Guardian, 1/20/05]

### **Robert Ball, Former U.S. Commissioner of Social Security:**

"A system in which part of [Social Security] benefits depend upon investment return is a bad idea. It's bad for the individual involved and bad for society." [Pittsburgh Post-Gazette, 12/19/04]

## **There is No Crisis Facing Social Security**

### **Professor Alicia Munnell, Center for Retirement Research, Boston College:**

"If we do nothing, the system can deliver full benefits through the year 2042. That's according to the Social Security Administration." [ABC News Transcripts, 1/14/05]

### **Douglas Holtz-Eakin, Director of the Congressional Budget Office:**

"Talking about the pending bankruptcy of Social Security is misplaced." [Financial Times, 12/15/04]

### **Congressional Budget Office:**

"CBO projects that the trust funds will become exhausted in 2052, after which spending authority will be limited to annual revenues – which are projected at the point to equal only about 80 percent of scheduled benefits." ["The Outlook for Social Security," 6/04, p. viii]

